Ph.D. Synopsis entitled

"Study of Investment Management in Stock Market by Investors with special reference to use of Fundamental Analysis"

Submitted to

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1. Introduction:

1.1 Avenues of Investment:

"Learn to have money work for you rather than you work for money",

a famous quote by Robert T Kiyosaki. This tells us how we should approach the investment routine. In this modern era, money plays an important role in one's life. In order to overcome the problems in future, People have to invest their money. Investment is an activity where we set aside some money now, in anticipation of receiving a higher amount in the future. Investment avenues are the different ways that a person a can invest his money. It is also called investment alternatives or investment schemes. Take some essential Investment avenues in our lives to save money.

Many Investment alternatives are available for investors in the market. Popular investment avenues are – equity shares, bonds, government securities, treasury bills, certificate of deposits, commercial papers, bank deposits, post office deposits, insurance policies, mutual funds, gold and silver real assets. The risk & returns available from each of these investment avenues differ from one avenue to another. Knowledge about these alternatives is significant for the investors. The attitude of investors would vary from time to time and person to person. The objective of investment of investors will also be different.

(A) Securities:

Securities can be classified as variable income securities and fixed income securities. Equity shares is a variable dividend/ income security while preference shares, bonds, debentures, government securities, money market securities are fixed income securities.

Equity Shares:

These are also called ordinary shares. These shares are issued to the general public and are non-redeemable in nature. Holders of such shares are the real owners of the company. The rate of dividend on them varies according to the profits of the company and

the policy of the board of directors. Equity shareholders bear risk in the hope of high dividend and appreciation of capital.

Fixed Income Securities

Fixed income securities are categorized as under:

1. **Preference Shares:**

Preference Shares are those shares which carry preferential right in respect of dividends and also the preferential right with regard to repayment of capital in case of winding up of the company.

2. **Debentures:**

Debenture may be defined as an acknowledgement of a debt by the company. Debentures are creditorship securities which provides funds to the company on loan basis rather than on capital basis. Debenture holders are entitled to periodical payment of interest at a fixed rate. Debenture holders have priority of claim on assets of the company, their money has to be paid first before making any payment to preference or equity shareholders in the of liquidation of the company.

3. **Bonds:**

Bonds are similar to debentures. However, they are issued by public sector undertakings. The value of the bond in the market depends upon the interest rate and maturity. The coupon rate is the nominal interest rate offered on the bonds. IDBI, ICICI have issued various bonds to suit the needs of the investors. Some of these are deep discount bond, retirement benefit bond, indexed bond and education benefit bond.

4. **Government Securities:**

Government Securities in India have a larger market than industrial securities but it is not so well known to the investor of the economy. The securities issued by central government, state government and quasi- government agencies are known as government securities.

As a government guaranteed security, it is a safe financial instrument. It gives of guarantee of income and capital. The rate of interest on these securities is relatively lower because of their high liquidity and safety.

5. Money Market Securities:

Money Market Securities have a short-term maturity, say less than a year. Common money market instruments are as under:

6. Treasury Bills:

A Treasury Bill is a promissory note issued by Central Government for a specified period usually for less than a year. The government promises to pay the amount mentioned in the treasury bill to bearer of the instrument on the due date. Generally, treasury bills are of 91 days. The rate of interest on treasury bills is low, hence people very rarely invest in them.

(i) Commercial Papers (CP):

A commercial paper is a short-term unsecured loan of fixed maturity, bearing interest given to a company in exchange of a promissory note. It is a negotiable by endorsement and delivery. At present, commercial paper can be issued for maturities between a minimum of 7 days and maximum of up to one year from the date of issue.

The commercial papers are sold at discount and redeemed at face value. The discounted value implies the interest rate.

(ii) Certificate of Deposit (CD):

Certificate of deposits are marketable receipt of funds deposited in a bank for a fixed period at a specified rate of interest. It is a bearer document and easily negotiable. The denominations of CD and interest rate on them are high. Minimum amount of a CD should be RS. 5 lakh and in multiples of Rs. 5 lakh thereafter.

7. Mutual Funds:

There are large number of mutual funds in India, Investment companies or Investment Trusts obtain funds from many investors through the sale of units.

The funds collected are placed under professional management for the benefit of the investors. All funds are regulated by Securities Exchange Board of India (SEBI). Mutual funds are classified on the basis of Structure, Investment Objective & Special Schemes.

(B) Deposits

Deposits earn a fixed rate of return. Even though bank deposits are similar to fixed income securities, they are not transferable instruments. Some of the deposits are explained below:

(i) Bank Deposits:

This is an easy investment avenue for an investor. He has to open an account and deposit the money. The various kinds of deposits provided by the banks are Saving Account, Current Account, Recurring Deposits and Fixed Deposit.

(ii) NBFC Deposits:

The Non-Banking Financial Companies have played a positive role in providing alternative avenues of investment in fixed deposits. This has improved the rate of savings in the economy. The investor may invest in these companies after carefully evaluating them.

(C) Post Office Schemes

Post Office Saving Schemes are considered reliable form of investment because they are backed by the Government of India. The Indian Postal Department has largest postal network in the world. The post office handles saving bank accounts, recurring deposits accounts, and ten years cumulative time deposit accounts.

Apart from this, it provides opportunities like National Saving Certificate (NSC), Kisan Vikas Patra (KVP), Monthly Income Scheme (MIS), Senior Citizen Scheme (SCS), Public Provident Fund (PPF).

(D) Insurance

Insurance is also investment avenue available to Individual and corporates. It is helpful in promoting savings. The core feature of insurance is protection. The various insurance policies are available to the insuree (here Investor), he can take the policy according to his goal and needs.

(E) Gold

Gold is one of the most popular precious metals for investment today. It can be passed on from one generation to the other by way of inheritance, bought for consumption purpose or as an investment avenue.

There are 5 ways of Investing in gold purchase of physical gold, Investment through Gold Mutual Funds, Investment through Gold Exchange Traded Funds (ETFs), Investment through Derivative Markets, Electronic Gold (E-Gold).

Gold has emerged as the best – performing asset class in 2022, after underperforming most risk assets last year. The reason gold tends to be resilient during stock market crashes is that the two are negatively correlated. In other words, when one goes up, the other tends to go down. Stocks benefit from economic growth and stability while gold benefits from economic distress and crisis.

(F) Real Estate

Real estate investing involves the purchase, ownership, management, rental and/or sale of real estate for profit.

In India, the real estate markets have grown exponentially in terms of financing investment opportunities. It is a booming sector in India. Metros, cities and urban areas are seeing an increasing demand in residential and commercial real estate markets.

1.2 Relationship between Risk and Return

What is Risk?

Risk implies future uncertainty about deviation from expected earnings or expected outcome. Risk measures the uncertainty that an investor is willing to take to realise a gain from an investment.

What is Return?

Return, also called return on investment. Return is the amount of money you receive from an investment. A return is the money made or lost on an investment over some period of time. A positive return represents a profit while a negative return represents a loss.

Relationship between Risk and Return?

Relationship between risk and return means to study the effect of both elements on each other. We measure the effect of increase or decrease risk on return of investment. Following is the main type of relationship of risk and return -

1. **Direct Relationship between Risk and Return**

(A) High Risk - High Return

According to this type of relationship, if investor will take more risk, he will get more reward. If he invested lakh, it means his risk of loss is lakh rupees. Suppose, he is earning 20% return. It means his return is twenty thousand rupees.

(B) Low Risk - Low Return

It is also direct relationship between risk and return. If investor decreases investment. It means, he is decreasing his risk of loss, at that time, his return will also decrease.

2. Negative Relationship between Risk and Return

(A) High Risk Low Return

Sometime, investor increases investment amount for getting high return but with increasing return, he faces low return because it is nature of that project. There is no benefit to increase investment in such project. Suppose, there are 10,00,000 lotteries in which you will earn the prize of You have bought 50% of total lotteries. But if you buy 75% of lotteries. Prize will same but at increasing of risk, your return will decrease.

(B) Low Risk High Return

There are some projects, if you invest low amount, you can earn high return. For example, Govt. of India need money. Because, govt. needs this money in emergency and Government is giving high return on small investment. If you get this opportunity and invest your money, you will get high return on your small risk of loss of money.

1.3 Stock Market- How it works?

- Stocks are issued by companies in order to raise capitals and are bought by investors in order to acquire ownership in the company. A stock market is the place where buying and selling of stocks takes place. It is a place where shares of public listed companies are traded. In India, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are the two main stock exchanges.

How stock market works?

Share market works in the following order:

1. A company gets in the primary market through an IPO.
2. Shares get distributed in the Secondary Market.
3. Stocks issued can be traded by the investors in the secondary market.
4. Stock brokers and brokerage firms are entities registered with the stock exchange which offers you to buy particular share at said price.
5. Your broker passes on your buy order to the exchange, which searches for a sell order for the same share.
6. The process takes T+2 days i.e., you will get your shares deposited in your DMAT account in two working days.

1.4 Why an Investor invests?

1. To keep pace with inflation.
2. Most capital growth potential
3. Investing makes your money work for you.
4. Stock investing requires as little amount as buying a burger.
5. To create a alternative source of income
6. The power of compounding through long-term investments.
7. Tax benefits from government on stock investing.
8. To potential to earn higher returns.
9. To achieve financial goals.
10. Earn more than from a Saving Account.

1.5 How Investment Decision is arrived at

Retail investors depend on the recommendations of stock analysts, word of mouth and media coverage to make investment decisions. The more you invest, the more important it becomes to conduct your own fundamental analysis on stocks before investing in them. To invest confidently and prudently requires a thorough stock analysis and broad understanding of the industry you are choosing to put money in.

1. Reviewing Financial Statements

Share market analysis is first and foremost a numbers game. If you know which company you want to invest in - the financial statements of the company is the place to start. These statements are publicly available. A quick read through the company's Balance Sheet, Income Statement and Cash Flow Statement summarizes the company's performance in objective terms. Financial statements give you information on sales, profit margins and scope for profitability in the future based on which you can evaluate the future earning potential of the company.

2. Industry Analysis

A comparative analysis of the company's performance against its competitors or other companies in the same industry provides further insight on how well the company is performing relative to industry standards. Annual reports issued by the company, reports by stock analysts on the industry, trade magazines, surveys and research papers are resources that help put together a clear picture of industry trends.

3. Researching Stocks

To understand if a stock is worth the value it's trading at, one must look at the valuation of the company. Stock prices should be influenced by the earnings of the company but other factors such as a global health crisis, foreign investment, change in regulations can inflate or bring down

the value of a stock disproportionately. The price to earnings (P/E) ratio of a stock is also a good indicator of whether the price of the stock is high relative to the earnings per stock. Analysts review historical data as well - looking at earnings per share over a period of time. A high P/E ratio may indicate that the stock is overvalued whereas a low figure is indicative of the stock being undervalued. It is one of many metrics used to determine if a stock is worth buying or not.

4. Price Targets

The entire objective behind researching and stock analysis is to arrive at a price target. Stock analysts project the future price of a stock based on all the above parameters. The price target determines your entry or exit from the investment. The price target is not a fixed figure and is subject to the influence of market forces, new information and global developments. However, it is the surest indicator of whether you stand to earn money in the future by picking up a stock, at its market value, in the present time.

These are few of the parameters you must consider while arriving at investment decision.

1.6 Perception Towards Market

The globalization of financial markets has been increasing the size of the community of retail investors over the past two decades by providing a wide variety of market and investment options. Hence, it makes their investment decision process more complex. The factors influencing investor's perception are return on investment, market trend, risk, short term profitability, price of the share, dividend policy, past financial performance, company reputation, reputation of the board of directors, current earnings of the company and experts' opinion.

Stock market has become an attractive investment avenue for most of the investors, and stock market has enormously grown over the years. But lot of investors fear to invest in stock market due to the volatility often seen in share market. The risk often undertaken by the investors in share market huge and there exist fear among the investors of losing their hard-earned income. Even though the return, the investors receive in stock market is high, the investors need to bear an equal amount of risk too.

1.7 Analysis of Company

Company analysis contains an evaluation and examination of a company, its financial health and prospects, its management or marketing activities and its strengths and weaknesses. It is a process of evaluating a company's value by digging deep into its fundamentals to get a fair view of it. Analyzing a company carries a series of steps which generally needs to be gone through to reach a decision.

Steps in Company Analysis

- Identifying the basic info about the company along with the industry outlook.
- Dig deep into the products and services it offers along with its demand and supply dynamic.

- Identify the risk and concerns the company is exposed to and measures it takes to deal with it.
- Analyze the financial statement which will give the quantitative picture of the company.

Factors affecting company analysis

- Qualitative factors take into consideration the business model, competitive advantage, management and competitive governance.
- Quantitative factors deal with the industry growth and the company's growth along with its peers.

Methods:

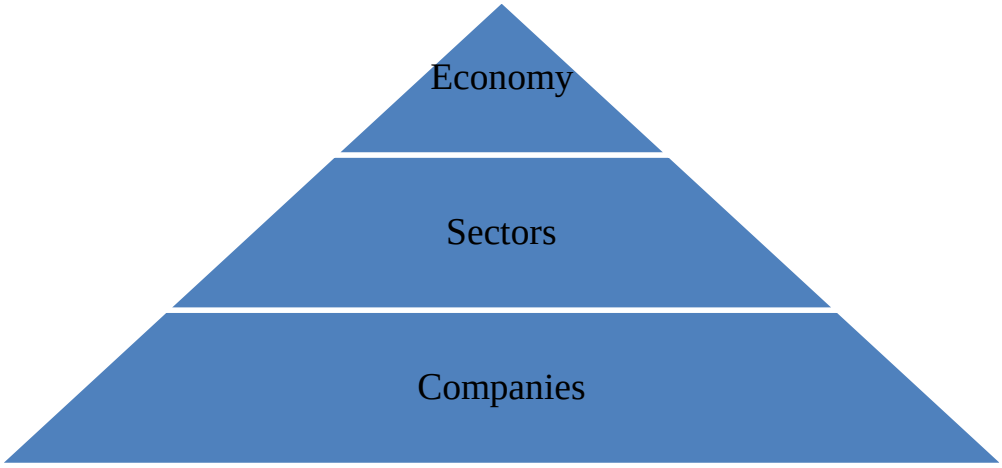

Fig. 1.6.1 Bottom-up Approach

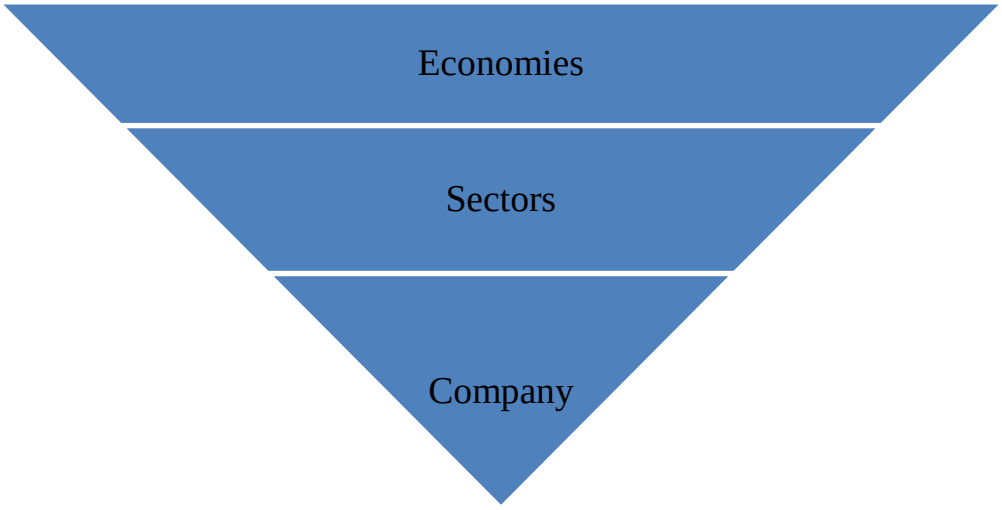

Fig. 1.6.2 Top-Down Approach

1.8 What is Fundamental Analysis?

It is a method of assessing the intrinsic value of a security by analyzing various macroeconomic and microeconomic factors. The ultimate goal of fundamental analysis is to quantify the intrinsic value of a security. The security's intrinsic value can then be compared to its current market price to help with investment decisions. By knowing the right price, an investor can make an informed investment decision. A security can be overvalued, undervalued, or fairly valued.

Fundamental analysis uses three sets of data:

1. Historical data to check how things were in the past.
2. Publicly known information about the company, including announcements made by the management and what others say about the company
3. Information that is not known publicly but is useful, i.e., how the leadership handles crises, situations, etc.

For a stock, fundamental analysis typically includes reviewing many elements related to stock prices, including:

- Performance of the overall industry the company participates in
- Domestic political environment
- Relevant trade agreements and external politics
- The company's financial statements
- The company's press releases
- News releases related to the company and its business
- Competitor analysis

If a company's fundamental indicators suggest a negative impact, it will likely hurt its share price. On the other hand, if the data is positive, for instance, a favorable earnings report, it can boost the company's share price.

What are the different types of Fundamental Analysis?

There are two main types of fundamental analysis –

1. Qualitative: a study that involves brand value, management decisions, the financial performance of the company over a given period, and other similar factors.
2. Quantitative: an analysis that is purely number-based and considers the company's financial statements and concludes the share price from the observations.

1.9 Perception of Behavioural Finance

Behavioral finance is a new academic discipline which seeks to apply the insights of the psychologists to understand the behavior of both investors and financial markets. It focuses upon how investor interprets and acts on information to take investment decisions. It explains that an individual does not always act rationally in their financial decisions and that their behaviors cause them to make different choices about their financial decisions. This new field incorporated the theories of psychology, sociology and also neurology in the study of investor behavior. Behavioral finance is becoming a primary part of the decision-making process, since it influences investors' behavior greatly. Better understanding of behavioral finance will help the investors to select a better various investment option.

It can be analyzed from a variety of perspectives. Stock market returns are one area of finance where psychological behaviors are often assumed to influence market outcomes and returns but there are also many different angles for observation. The purpose of the classification of behavioral finance is to help understand why people make certain financial choices and how those choices can affect markets.

2. Objectives of The Study:

1. To study factors affecting investors perception.
2. To study top Industrial Conglomerate in India.
3. To study importance of Fundamental Analysis.
4. To study awareness of investors towards Fundamental Analysis.
5. To study factors affecting investors decision while investing.
6. To suggest various approaches for investing.

3. Hypothesis:

1. Investors are aware about various factors affecting investment decision.

2. There is no relation between investors education and investment behavior.

3. Investors prefer fundamentally strong stocks for Investment.

4. Investors gives preference only to fundamental analysis while investing.

5. There is no relationship between fundamental analysis and return on investment.

4. Research Methodology:

The study is both descriptive and analytical in nature and hence designed as an empirical one based on survey method.

1. Data collection:

The data will be collected of investors in different districts of Maharashtra state. The data will be collected in a manner so as to study the investors perception towards fundamental analysis of listed companies. The respondents will include Professionals, Housewives, Investors, Businessmen and students etc.

The primary data will be collected through questionnaires and interviews. Journals, newspapers research magazines and government and non-government reports will form base for secondary data.

2. Sample:

The proposed research is a sample study of investors in different districts of Maharashtra state. The proposed study will be based on the data collected from 36 districts of Maharashtra state. The respondents will be classified as professionals, housewives, investors etc. the researcher proposes to collect data from 400 respondents i.e. 11 from each district.

5. Chapter Plan:

Chapter No. 1) Introduction

Chapter No. 2) Review of Literature

Chapter No. 3) Research Methodology

Chapter No. 4) Investors perception towards Share Market and Fundamental Analysis

Chapter No. 5) Data Analysis

Chapter No. 6) Conclusions, Recommendations and Suggestions

The above chapter scheme is tentative. Depending on the actual research work it may change in the course of the study.

Research Student — Research Guide

Khaled Jafarkhan Pathan — Dr. Sachin Prakash Pawar